

Assembly Bill No. 551

CHAPTER 1162

An act to add Section 701.1 to the Financial Code, relating to financial institutions.

[Approved by Governor September 30, 2002. Filed
with Secretary of State September 30, 2002.]

LEGISLATIVE COUNSEL'S DIGEST

AB 551, Papan. Industrial banks: acquisition.

Existing law provides for the regulation of financial institutions, including industrial banks, by the Commissioner of Financial Institutions and by various federal agencies.

This bill would prohibit a person, except as specified, from acquiring control of an industrial bank unless the person is engaged only in the activities that are permitted for a financial holding company as provided in federal law, or the person is a credit union when the industrial bank is a credit union service organization as provided in state law.

The people of the State of California do enact as follows:

SECTION 1. The Legislature finds and declares all of the following:

(a) The economic strength and general welfare of California depends on strong and sound financial institutions that command the highest levels of public confidence among the citizens of this state.

(b) California financial institutions are highly monitored and closely supervised by federal and state regulatory agencies that impose strict compliance standards and conduct regular and frequent examinations of those institutions.

(c) The Banking Law, as amended by Chapter 105 of the Statutes of 2000 (Senate Bill 2148), reclassified industrial loan companies as industrial banks, otherwise subject to all laws and regulations pertaining to commercial banks, except the prohibition against offering demand deposits.

(d) The chairman of the Federal Reserve Board, in congressional testimony, and many other noted economists, experts, and government officials have noted the dangers of mixing banking and general commerce. Clarification of California public policy with regard to mixing of banking and commerce and to the acquisition of control of California industrial banks is desirable to assure continued public confidence in these institutions.

(e) It is therefore the intent of the Legislature to address these concerns by creating more consistency between state and federal law.

SEC. 2. Section 701.1 is added to the Financial Code, to read:

701.1. Notwithstanding any other provision of this article, except for those persons approved by the commissioner prior to September 1, 2002, and for those persons who control industrial banks as of September 1, 2002, no person may directly or indirectly, including through any merger, consolidation, or any other type of business combination, acquire control of an industrial bank, as defined in Section 105.5, unless the person is engaged only in the activities permitted for financial holding companies, as provided in Section 103 of the federal Gramm-Leach-Bliley Act (12 U.S.C. Sec. 1843(k)(1)), or is a credit union, as defined in Section 134.5, when the industrial bank is a credit union service organization, as defined in Section 14651. Nothing in this section shall be construed to exempt a person seeking to acquire control of a bank that otherwise qualifies to do so pursuant to this section, from the requirements of Sections 700 to 711, inclusive. For the purposes of this section, the term “control” has the same meaning as in subdivision (b) of Section 700.

